

2:04-cv-1676-RCJ-RJJ

UNITED STATES DISTRICT COURT

DISTRICT OF NEVADA

IGT, a Nevada Corporation,

Plaintiff,

V.

ORDER

ALLIANCE GAMING CORPORATION,)
a Nevada Corporation; BALLY GAMING)
INTERNATIONAL, INC., a Delaware)
Corporation; and BALLY GAMING,)
INC., a Nevada Corporation d/b/a BALLY)
GAMING & SYSTEMS,)

Defendants.

AND RELATED COUNTERCLAIMS

This matter comes before the Court on Bally Technologies, Inc., Bally Gaming International, Inc., and Bally Gaming, Inc.’s (collectively “Bally”) Motion to Compel IGT’s Compliance with the Court’s September 28, 2006 Order (#302) and Motion for Leave to Amend Answer and Counterclaim. (#400.) The Court has considered the Motions, the pleadings on file, and oral argument on behalf of all parties and hereby issues the following Order.

BACKGROUND

Bally asks this Court to compel IGT's compliance with the Court's September 28, 2006, Order. In the September Order, the Court ordered IGT to produce various documents regarding litigation between IGT and former IGT in-house attorneys, Shawn and Lena Van Asdale

1 (collectively “Van Asdale”). Bally also asks the Court to sanction IGT for failure to comply
2 with the Court’s Order. Bally claims IGT has not complied with the Court’s Order while IGT
3 assert that it has. Bally further asks this Court for leave to amend its Answer and Counterclaims.

4 On July 8, 2004, Van Asdale filed a complaint with OSHA alleging IGT violated 18
5 U.S.C. § 1514A, the Sarbanes-Oxley Act. Van Asdale withdrew the OSHA complaint
6 approximately four months later and subsequently filed a complaint (the “Complaint”) for
7 retaliatory discharge against IGT in federal district court. In the Complaint, Van Asdale alleges
8 that IGT long knew that certain “Wheel Patents,” which IGT now argues Bally has infringed,
9 were invalid. The Wheel Patents are associated with the Vintage Monte Carlo, a gaming
10 machine and wheel game. Bally has created new versions of this machine, which IGT claims
11 infringe upon the Wheel Patents. According to Van Asdale, after Anchor (IGT’s predecessor)
12 and IGT merged, Anchor’s management materially misstated the Wheel Patents’ value and
13 fraudulently concealed this information from IGT’s investors and the public. In addition, the
14 Complaint further contends that Anchor concealed from IGT information regarding the Wheel
15 Patents’ validity. The Complaint also alleges that IGT’s outside counsel at the time informed
16 IGT the Wheel Patents were invalid. Van Asdale sued IGT for purportedly retaliating against
17 him for investigating these fraudulent activities. Bally argued the Van Asdale litigation
18 documents were relevant to the instant case because IGT had accused Bally of infringing six
19 patents, including two Anchor Wheel Patents at issue in the Van Asdale litigation.
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21 Bally claims it first learned about the Van Asdale litigation in March, 2006, when
22 reviewing IGT’s 2005 Annual Report. The Annual Report revealed that IGT had filed a motion
23 to dismiss in the Van Asdale litigation, which the district court denied, and that IGT was
24 planning to appeal that denial to the Ninth Circuit. Although the trial court proceedings were
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1 under seal, IGT's counsel in the Van Asdale litigation never asked the Ninth Circuit to seal the
2 documents it filed in the appeal. On March 16, 2006, Bally's counsel obtained a copy of all
3 publicly-available materials on file with the Ninth Circuit.

4 On September 28, 2006, this Court issued its Order (#294) wherein it stated that IGT
5 "waived privilege as to the actual documents filed in the Ninth Circuit's public files and the
6 subject matter contained in those documents." (*Id.* at 18.) The Court further ordered IGT to
7 produce the documents related to the Van Asdale litigation filed with OSHA. The Court also
8 ordered IGT to produce the Laxalt Report. Bally now argues IGT has failed to comply with this
9 Court's Order regarding production of the above-mentioned documents. Specifically, Bally
10 argues that IGT failed to produce a complete version of the Laxalt Report. Bally also contends
11 that IGT failed to produce the required Ninth Circuit filings and the documents filed with OSHA.

12 **DISCUSSION**

13 **I. IGT's Ninth Circuit/OSHA Filings**

14 In its Order, the Court found that IGT had "voluntarily waived" its attorney-client
15 privilege with the documents filed in the Ninth Circuit's public files. The documents filed with
16 the Ninth Circuit include the OSHA complaint, the complaint in the Van Asdale litigation, the
17 Van Asdale court's denial of IGT's motion to dismiss, the discovery plan, and the docket sheet
18 for the Van Asdale litigation.
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20 **A. Scope of the Waiver—What IGT Must Produce**

21 "Voluntary disclosure of the content of a privileged attorney communication constitutes
22 waiver of the privilege as to all other such communications on the same subject." *Weil v.*
23 *Inv./Indicators, Research & Mgmt., Inc.*, 647 F.2d 18, 24 (9th Cir. 1981). Courts have also been
24 quick to note, however, that this waiver only extends "to communications about the matter
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1 actually disclosed.” *Chevron v. Penzoil*, 974 F.2d 1156, 1162 (9th Cir. 1992). Further, courts
2 narrowly construe subject matter waivers in patent cases. *See, e.g., Dunhall Pharms., Inc. v.*
3 *Discus Dental, Inc.*, 994 F. Supp. 1202, 1209 (C.D. Cal. 1997) (citations omitted).

4 In its Order, the Court stated that IGT “waived privilege as to the actual documents filed
5 in the Ninth Circuit’s public files and the subject matter contained in those documents.” (#294
6 at 18.) The Court also held that the “waiver extends to only those communications about the
7 matters actually disclosed in the Ninth Circuit filings.” (*Id.*) The Court further warned that the
8 waiver did not extend to “all documents related to any and all subjects mentioned in the filings”
9 because “[a] broad ruling that IGT produce all documents related to any and all subjects
10 mentioned in the filings could result in production of documents otherwise remaining
11 privileged.” (*Id.* at 22.)

12 Both parties concede IGT has produced the documents actually filed in the Ninth
13 Circuit’s public files. The parties disagree, however, on whether IGT has produced
14 communications about the matters actually disclosed in the Ninth Circuit filings. In essence, the
15 parties disagree as to what “the matters actually disclosed” entails. Although the Court used this
16 language in its prior Order, it did not define “matters actually disclosed.” However, the Court
17 issued a warning to Bally that the waiver did not apply to “any and all subjects mentioned in the
18 filings” In its Motion, Bally attempts to use the Court’s Order to obtain free reign or
19 discovery on all topics mentioned in the Ninth Circuit filings. As explained below, the Court
20 does not construe its Order as broadly as Bally desires.

21 Although the court stated that IGT waived its privilege to the subject matter actually
22 disclosed in the Ninth Circuit filings, the Ninth Circuit construes subject matter waivers
23 narrowly. *See, e.g., Chevron Corp. v. Pennzoil Co.*, 974 F.2d 1156, 1162 (9th Cir. 1992) (citing
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1 *Weil v. Investments/Indicators, Research & Mgmt., Inc.*, 647 F.2d 18, 25 (9th Cir. 1981)).
2 Where waiver of attorney-client privilege has occurred, the scope of that waiver should be
3 determined with reference to considerations of fairness. *See In re Grand Jury Proceedings*
4 *October 12, 1995*, 78 F.3d 251, 255 (6th Cir. 1996). In this case, ordering IGT to produce
5 documents and discovery on all topics mentioned or discussed in the Ninth Circuit's public
6 filings would not comport with "considerations of fairness."

7 Just as the Court did in its Order, Bally focuses on *Chevron*. In *Chevron*, Penzoil
8 disclosed to an outside auditor memoranda surrounding Penzoil's subsidiary tax issues, which
9 also related to its tax deferral strategies. 974 F.2d at 1162. *Chevron* argued that not only did
10 Penzoil waive its privilege to these memoranda, but it also waived the attorney-client privilege
11 to all communications relating to the "hoped for tax deferral." *Id.* The court ruled the waiver
12 applied "only to the communications about the matter actually disclosed," and not "every
13 document or communication that touched on the more general tax deferral question." *Id.* Like
14 In *Chevron* where Penzoil tried to access "every document or communication that touched on
15 the more general tax deferral question" and not just documents that related to the memoranda,
16 Bally wants the Court to give it access to every document or communication that touches on any
17 subject whatsoever mentioned in the Complaint or other filings. Such a finding would allow
18 Bally to gain access to an almost unlimited number of documents. Such a waiver is too broad.

19 Although the Court recognizes Bally's valid interest in discovering all documents relating
20 to the subject matter waived, the Court must balance such interest with IGT's countervailing
21 interest in protecting privileged communications. Although the Court has held that IGT waived
22 its privilege to the documents filed in the Ninth Circuit files, as well as to the subject matter
23 actually disclosed in those documents, the Court limits its holding and does not construe it as
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1 broadly as does Bally. The Court construes “subject matter actually disclosed” as subject matter
2 in the waived documents relating to the Van Asdale’s specific allegations regarding patent
3 invalidity. In its original Motion to Compel, Bally focused on the alleged privileged
4 communications regarding patent invalidity. Now, Bally seeks a broad range of disclosures
5 including materials that are not disclosures of an attorney-client privileged communication.
6 Moreover, this case is different in some regards than those cited by Bally. In *Chevron*, Penzoil
7 disclosed memoranda it had produced. In this case, IGT disclosed documents created by other
8 individuals. These documents contain allegations which may or may not be true and which may
9 or may not reflect IGT’s positions. In *Chevron*, Penzoil disclosed self-created documents
10 disclosing Penzoil’s beliefs and positions.

11 **II. The Court’s Prior Order did not Discuss Work product**

12 IGT correctly asserts that the Court’s September Order only held that the waiver applied
13 to attorney-client privileged communications. The Order did not discuss the work product
14 privilege or hold that IGT had waived this privilege with respect to the “subject matter actually
15 disclosed” in the filings. Indeed, in its Order the Court explicitly warned that “[a] broad ruling
16 that IGT produce all documents related to any and all subjects mentioned in the filings could
17 result in production of documents otherwise remaining privileged.” Bally is not required to hand
18 over any documents “otherwise privileged” by the work product doctrine. However, as the party
19 asserting work product privilege, IGT bears the burden to establish its applicability. Thus, IGT
20 must demonstrate if any of the documents required to be disclosed pursuant to the Court’s Order
21 are protected by the work product privilege.
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1 **III. The Laxalt Report**

2 The Court's Order required IGT to produce the Laxalt Report because Laxalt was acting
3 as an independent investigator and not as IGT's counsel when he prepared his report, and thus
4 the report was not privileged information. According to Bally, IGT has refused to produce the
5 entire report. Specifically, Bally asks this Court to compel IGT to produce Appendices B-E,
6 Exhibits 1-4, 6-8, 10-11, 14-23, 26, 28-33, and 35. Bally also asks this Court to order IGT to
7 produce the notes that Laxalt and Spencer (Spencer assisted Laxalt in preparing the report)
8 produced during their "investigation."

9 First, in its Order, the Court ordered IGT to produce the report because it found that Mr.
10 Laxalt was neither working in his capacity as an attorney nor offering legal advice to IGT. Thus,
11 the report that Laxalt created was not work product or privileged information, and the Court
12 therefore ordered IGT to produce it. IGT produced the report but has not produced the
13 documents listed above. IGT claims these documents were not produced by Laxalt or Spencer.
14 Rather, IGT asserts that these documents consist of otherwise privileged or work product
15 materials prepared by IGT and given to Laxalt to assist him in producing his report. Bally argues
16 IGT waived any privilege or work product status by allowing Laxalt to view this material. The
17 Court did not previously rule that IGT had waived any attorney client or work product privilege
18 in connection to the Laxalt Report.

19 **A. Work Product**

20 Bally does not argue the requested documents are not work product; rather, it argues IGT
21 waived the work product protection with respect to these documents. First, Bally argues IGT
22 waived its work product protection because it previously disclosed the requested documents in
23 the Van Asdale litigation. During the Van Asdale litigation, IGT told the Van Asdale court that
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1 it had disclosed the Laxalt report to the Van Asdales as well as “some of the factual” documents
2 contained with the Report. Bally contends that this disclosure in the Van Asdale litigation
3 amounts to a waiver. However, even if it did, it only acts as a waiver as to the documents
4 disclosed in that litigation. IGT asserts, and Bally does not refute, that the documents IGT
5 disclosed in the Van Asdale litigation are the same as those it has disclosed pursuant to this
6 Court’s Order. Thus, IGT has not conceded waiver of its work product as Bally asserts.

7 Bally also contends IGT waived its work product protection for any materials provided
8 to Laxalt and Spencer in connection with their independent investigation. Both parties agree as
9 to the standard the Court should apply: The work product privilege may be waived through
10 disclosure of the document, if the disclosure of work product “substantially increases the
11 possibility that an opposing party could obtain the information.” *See, e.g., Ideal Elec. Co. v.*
12 *Flowserve Corp.*, 230 F.R.D. 603, 609 (D. Nev. 2005) (citations omitted). IGT argues that
13 Laxalt and Spencer had confidentiality agreements not to disclose the materials at issue, and
14 thus, it is unlikely that disclosing the work product to Laxalt and Spencer in and of itself
15 substantially increased “the possibility that an opposing party could obtain the information.”
16 Bally argues, however, that the information actually reached IGT’s adversaries. Specifically,
17 Bally asserts that the Van Asdales received the requested documents in connection with the Van
18 Asdale litigation. IGT contends it already handed over the documents disclosed to the Van
19 Asdales, and that the remaining documents were produced under seal pursuant to the Seal Order
20 in the Van Asdale litigation.
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22 The Court holds that IGT waived any privilege as to documents disclosed to third parties.
23 However, this waiver does not apply to exhibits only produced to the Van Asdales under sealed
24 order. Disclosing documents to the Van Asdales in the separate litigation under seal cannot form
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1 the basis of a waiver argument. Accordingly, IGT must produce all exhibits that have been
2 disclosed to third parties, other than exhibits produced only to the Van Asdales under sealed
3 order. Further, IGT must produce all other exhibits to the Laxalt Report for an in camera
4 inspection. The Court thereafter will determine whether these other exhibits are entitled to work
5 product protection.

6 **IV. Motion for Leave to Amend**

7 Bally seeks leave to amend its Answer and Counterclaims to add recently discovered
8 facts regarding its inequitable conduct and unclean hands affirmative defenses, antitrust
9 counterclaims, and counterclaims for a judgment of unenforceability. Bally claims it has
10 recently discovered additional instances of inequitable conduct by IGT that it did not include in
11 its original Answer and Counterclaims. Bally seeks leave to amend seventeen months past the
12 deadline specified in the First Amended Scheduling Order. (*See* #55.)

13 **A. Standard**

14 Once a district court has entered a pretrial scheduling order under Rule 16 of the Federal
15 Rules of Civil Procedure, the standards of Rule 16 control any request to amend the complaint.
16 *Johnson v. Mammoth Recreations, Inc.*, 975 F.2d 604, 607-608 (9th Cir. 1992). A motion to
17 amend filed after the deadline indicated in the pretrial scheduling order for such motions may
18 be treated as a *de facto* motion to amend the scheduling order, and granted upon a showing of
19 “good cause” under Rule 16(b). *Id.* at 609.

20 In determining whether a party has demonstrated “good cause,” the court “primarily
21 considers the diligence of the party seeking the amendment.” *Id.* Thus, a district court may
22 modify the pretrial schedule “if it cannot reasonably be met despite the diligence of the party
23 seeking the extension.” *Id.* (citing Fed. R. Civ. P. 16 advisory committee’s notes).

1 **B. Analysis**

2 Bally asserts it recently discovered facts relating to two instances concerning IGT's
3 inequitable conduct. Bally argues they have good cause because they could not have sought
4 leave to amend until now because they were unaware of these new facts. Specifically, Bally
5 contends it has recently discovered that (1) IGT intentionally withheld the Wheel of Gold prior
6 art during prosecution of the '573 patent, and (2) IGT intentionally withheld the Vintage Monte
7 Carlo prior art.

8 Bally claims that the Wheel of Gold machine (prior art) invalidates the '573 patent.
9 According to Bally, the Wheel of Gold game has a wheel-of-fortune like structure that
10 invalidates the '573 patent. Bally claims it has only recently obtained evidence demonstrating
11 that IGT intentionally withheld the Wheel of Gold prior art from the patent office. On January
12 11 and 12, Bally deposed Anthony Baerlocher, an inventor of the '573 patent. According to
13 Bally, Mr. Baerlocher's testimony "reveals that IGT not only intentionally withheld the Wheel
14 of Gold, IGT intentionally misrepresented to the Patent office in 1997 that no game with a
15 second level wheel of fortune rotatable wheel about an axis was known in the prior art." While
16 IGT correctly asserts that Bally was aware of the Wheel of Gold prior to this deposition, Bally
17 did not have sufficient evidence to allege IGT intentionally withheld the Wheel of Gold machine
18 from the patent office. In September, 2006, this Court ordered IGT to produce the Laxalt Report
19 and other related documents, as discussed above. IGT's disclosure of these documents produced
20 new evidence to support Bally's arguments that IGT had intentionally withheld the Vintage
21 Monte Carlo prior art.
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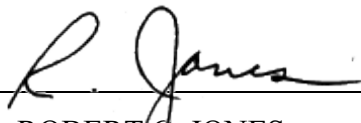
23 Bally made these evidentiary discoveries after the deadline to amend had passed. The
24 "good cause" standard "primarily considers the diligence of the party seeking the amendment."
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1 *Crockett & Myers, Ltd. v. Napier, Fitzgerald & Kirby, LLP*, 430 F. Supp. 2d 1157, 1163 (D.
2 Nev. 2006). Bally acted diligently in confirming its suspicions after it discovered this new
3 evidence. Thus, Bally has demonstrated good cause. Accordingly, the Court grants Bally's
4 Motion to Amend.

5 CONCLUSION

6 The Court finds that IGT did not waive its work product privilege with respect to the
7 Laxalt Report, the OSHA filings, and the Ninth Circuit public filings. Further, the Court grants
8 in part and denies in part Bally's Motion to Compel to the extent analyzed above. Accordingly,
9 IT IS HEREBY ORDERED that Bally's Motion to Compel (#302) is *granted in part* and *denied*
10 *in part*. IT IS FURTHER ORDERED that Bally's Motion for Leave to Amend its Answer and
11 Counterclaims (#394) is *granted*.

12 DATED: August 20, 2007.

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16 ROBERT C. JONES
UNITED STATES DISTRICT JUDGE
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